EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	NIO/ECON	X			
17	ES x		X		
18					
19					
20					
21					
22					

SUSPENSE ________ Date

STAT

Remarks

19 Sep 85
Date

3637 (10-81)

Executive Registry
85- 3641

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: September 19, 1985 **Number:** 175552CA **Due By:** 9 a.m., Friday, September 20

Subject: TRADE POLICY STATEMENT

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☐
State	☐	☐
Treasury	☑	☐
Defense	☐	☐
Justice	☐	☐
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☐	☐
Education	☐	☐
Chief of Staff	☐	☐
OMB	☐	☐
CIA	☑	☐
UN	☐	☐
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☐	☐
CEQ	☐	☐
OSTP	☐	☐
Mc Farlane	☐	☐
Svahn	☐	☑
Chew (For WH Staffing)	☐	☐
STUCKY	☐	☑
Executive Secretary for:		
DPC	☐	☐
EPC	☐	☑

TO: DIRECTOR CASEY (ATTN: [redacted]

STAT

REMARKS:

Please provide any comments/edits you may have directly to Gene McAllister (456-6556), Executive Secretary of the EPC, by 9 a.m., Friday, September 20, and an information copy to my office.

Thanks.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Ed Stucky
☐ Rick Davis

Associate Director
Office of Cabinet Affairs
456-2800 (Room 129, OEOB)

DCI EXEC REG

L-300B

September 19, 1985

Administration Statement on International Trade Policy

The Administration's Basic Trade Principles

A policy of free and fair trade is in the best interest of the citizens of the United States and the world. Such a policy produces more jobs, a more productive use of our nation's resources, more rapid growth and innovation, and a higher standard of living for Americans. Free and fair trade also advances our national security interests by strengthening the economic and political systems of our developed and developing country partners.

Despite these clear net benefits, protectionism has been on the rise in recent years. Protectionism is costly and contrary to our nation's economic prosperity and its security interests. Proposals in Congress for tariff surcharges or quotas, whether or not made for the purpose of political gain, are irresponsible and dangerous.

The United States plays the critical role in ensuring and promoting a free worldwide trading system. If the United States falters in its defense and promotion of the free worldwide trading system, the system will collapse, adversely affecting our national well-being.

Our trading partners also have a major obligation to support a more open trading system. This obligation includes: dismantling trade barriers, eliminating subsidies and other forms of unfair trade practices and entering into trade liberalization negotiations in the GATT. The international trading system is based upon cooperation. Since World War II, we have made enormous progress in moving toward an open worldwide trading system. Protectionism threatens to undermine that cooperation. Our trading partners must join us in working to improve the system of trade that has contributed to the economic growth and security of ourselves and our allies.

America has never been afraid to compete when trade is carried out under rules and there is a fair opportunity to compete. Amerkican industry and agriculture are competitive worldwide. When the rules are not followed, however, or where fair competitive conditions do not exist, then trade is unfair and the Administration will take action to fight it.

In its 1981 Statement on U.S. Trade Policy, the Administration indicated the high priority that it would give to international trade. In this connection, it emphasized the dual objectives of strengthening the private domestic economy through the President's domestic economic recovery program and pursuing open and fair trade internationally. Real private investment has risen more rapidly than GNP, particularly in the case of producers' durable equipment, and now accounts for a higher share of national output than at any other point in post-war history. This activity suggests that U.S. industry is re-equipping with the most modern and productive technologies available and building a solid base to strengthen its long-run competitive position.

The Administration's basic approach in its domestic economic and international trade policy has been to allow the operation of private market forces to the maximum extent possible. The U.S. economy today is stronger and more vibrant than ever before. Since 1980, private civilian employment has grown by 8 million. Manufacturing production has increased by 17 percent. Meanwhile, price inflation has dropped from double-digit levels (12.4 percent in 1980) to less than 4 percent in 1985. The continued efforts of the Administration to strengthen the domestic economy through the restoration of noninflationary growth will help further strengthen our economy's performance in coming years and improve our international competitiveness.

Internationally, the Administration's trade policy has been to step up efforts for a more open and fairer system of international trade, in which market forces also operate more freely from government restrictions and subsidies. The Administration has striven to reduce foreign barriers to U.S. exports, to counter foreign subsidy and other unfair practices abroad and to use available authority to encourage our trade partners to live up to their trade obligations.

The Administration continues to believe that open markets, based upon mutually agreed rules and equitable trading relations, are in our national interest.

<u>Challenges of Expanding International Trade</u>

U.S. economic activities are becoming more integrated with those of the global economy. Our business firms, workers and local and national governments must increasingly take into account this fundamental fact. In 1985, U.S. exports and imports of goods and services amount to 21 percent of our gross national product. This compares to 13 percent in 1970 and only 9 percent in 1950.

The trend toward a greater role for international trade in our economy is irreversible. The rapid growth and change of the economies of other countries, both developed and developing, provide new and growing markets for our exports and sources of our imports. As a result, U.S. production and consumption activities are becoming more integrated with those around the world.

Our dependence on foreign markets for our industrial and agricultural products, and the important challenge of foreign competition in our domestic market, make it imperative that we continue to foster a strong and internationally competitive economy and a more open global system for international trade and capital flows. This Administration accords a high priority to policies that achieve these objectives.

In spite of the growing importance of international markets to our economy, there are major threats to open and market-based trade. There are extensive government interventions into the economies of our trading partners which impair our ability to do business internationally and export. This Administration will continue to vigorously seek the liberalization of protectionist industrial, agricultural, investment and intellectual property policies overseas in order to enable our producers to increase their trade and foster U.S. growth and jobs.

We must also address the problem of growth of protectionist pressures at home. Advocates of tariff surcharges frequently cite the currently large trade deficit of the United States as an argument for restricting our businesses' and consumers' ability to purchase imported products. Advocates of protection at home argue that our trade deficit is a drag on our economic growth. Yet, such an analysis is as wrong as its prescriptions.

The best proof that a free market and free trade work is our own growth success compared to the slower growth of the economies of our trade partners. Our nation's trade deficit has become very large; but at the same time, and for the same reason 8 million jobs have been created since 1980. It is important to emphasize that these new jobs have been created for one of the very same reasons that the trade deficit has widened: our robust growth over the last several years has stimulated demand for both domestic and foreign products. This growing demand has served our interest by giving Americans a greater choice and lower prices, and by helping to keep friendly nations healthy and stable. We must recognize that we could not have had our own vibrant growth without also creating a larger trade deficit.

In contrast to the robust economic growth and rising demand in the United States over the last several years, the growth of our trade partners has been generally slower. This has further contributed to our trade deficit (and our trade partners' surpluses). While our nation's industrial production grew by [illegible] percent since 1982, the industrial output of our major developed country partners generally grew much less -- by 17 percent in Canada, by 2.5 percent in France, by 8 percent in Germany, by [illegible] percent in Great Britain, and by 1.4 percent in Italy. Greater private investment and spending in these and other countries would help close the gap between their growth rates and ours. This, in turn, would help shrink our trade deficit by expanding foreign demand for our products relative to our demand for their products.

Also, the international debt problems of many developing nations have cut into their ability to import from the United States. U.S. exports to highly indebted developing countries have been cut in some cases by half since 1981. As these debtor nations adopt policies which shift their economies away from government-controlled to market-oriented decision making, and restore confidence of the international business and banking community, their potential to grow will be restored, and U.S. exports to them will once more expand.

The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute equity capital for debt by encouraging both domestic and foreign investment. These steps will enhance economic growth, thereby increasing debt repayment capabilities and also expanding U.S. export opportunities.

<u>The Dollar in International Markets</u>

Since 1979, the dollar has risen substantially in value relative to those of the currencies of other major trading partners. Its rise has been fueled by the inflow of capital from abroad seeking the returns and safety provided by our economy. These capital flows have added to our productive resources and have helped to put a lid on inflation.

The increase in the dollar's value, while enriching our economy, has also placed additional impediments in the way of our exports and has acted to encourage imports. The Administration is concerned about the effect of the dollar's rise in value on ability to compete internationally. Many U.S. producers have become less competitive relative to their competitors overseas because of the dollar's increase in value over the past 6 years. There are, however, no quick fixes for the dollar. Persistent intervention or the "pegging" of exchange rates at artificial levels are not feasible approaches. The dollar's strength, in part, reflects the relative strength of our economy. We should also avoid attempting to limit the inflow of capital which seeks to take advantage of, and contributes to, the positive prospects for our economic growth.

There would be an important contribution to moderating the dollar's rise if the policies of our trade partners succeeded in accelerating the growth of their economies. There would be an important contribution to the growth of U.S. exports through both a gradual strengthening of their currencies and the effect of their expanded incomes on their purchase U.S. products. The Administration is encouraging our trade partners to adopt policies that will accelerate their economic growth, and will urge Bonn Summit participants to act on their commitments to remove domestic rigidities and imbalances in their economies. We are not seeking old-fashioned "pump-priming" increases in government spending but rather policy shifts such as expenditure reductions, tax reform, and financial market liberalizations which permanently increase growth opportunities.

Federal Expenditure, Tax and Regulatory Policies

This Administration has achieved a major objective that is fundamental to an internationally competitive economy and an effective trade policy. The Administration's economic recovery program provided incentives to invest, increase productivity and diminish inflation from the dangerously high levels reached in 1979 and 1980. The resulting reduction in interest rates and inflation, coupled with lower marginal tax rates for individuals and businesses, have encouraged investment and yielded a combination of a strong recovery with lower inflation.

The expansion in investment since 1982 has been the most rapid of any economic recovery in the postwar period. The investments being made today will result in long-term enhanced U.S. competitiveness relative to foreign producers in both overseas and domestic markets. It is important to our international competitiveness to maintain, under our tax policies, the stimulus to savings and investment. The Administration has retained, as part of its tax reform proposals, the elements of our tax code that are favorable to individual and business savings and capital investment, including reduced individual and corporate tax rates, indexed depreciation of assets and the retention of the tax-credit provision for research and development expenditures. The President's tax reform proposal is essential to strengthening the economy and making U.S. businesses more competitive in international markets.

Another major Administration initiative -- to reduce federal expenditures -- is also important to the improvement of our international competitiveness through a moderation of the dollar's value and the reduction of the claims that such expenditures place on the nation's resources. In 1984, total private investment spending in the United States amounted to $637 billion, while total business and personal savings exceeded $675 billion. These savings would have been sufficient to finance our private investment expenditures had it not been for the federal budget deficit of over $175 billion last year. This deficit absorbed domestic savings, required the importation of many billions of capital borrowed from abroad, and contributed to raising the value of the dollar.

The high level of federal government expenditures and budget deficits have also had other negative effects on our nation's international competitiveness.

First, they have prevented interest rates from being further reduced. Indeed, unless government expenditures are brought back in line with revenues, interest rates could rise later, thereby raising the cost of investment funds to U.S. firms. The recent report of the President's Commission on Industrial Competitiveness indicated that the financial cost of capital is a major problem for U.S. companies competing in world markets. We must bring interest rates down further by reducing federal government spending and deficits.

The Administration has strongly pressed the Congress to reduce federal expenditures substantially. Such reductions would not only benefit our domestic economy, but also substantially improve our international competitive standing. Interest rates would be further reduced, more resources would be released to more productive uses in the private sector; and, very importantly, we would expect to see an improved level of the dollar that would benefit U.S. export and import-competing industries. A reduction in the government budget deficit may not lead to a substantial decline in the value of the dollar; if domestic and foreign investors also perceive that accomplishment as further increasing the attractiveness of U.S. assets, a large decline in the dollar will not occur. In any case, however, tighter control over federal expenditures and greater public sector efficiency would improve the performance of the economy and our international competitiveness.

The Administration also continues to work to reduce the burden of federal regulations that unnecessarily hamper U.S. economic growth, productivity and exports. On the export side, the Administration sought and obtained legislation in the form of the Export Trading Company Act of 1982, allowing banks to participate actively in the formation of export trading companies to facilitate U.S. exports of goods and services. The Administration will continually review the operation of this Act, and propose further modifications if there is a need to do so.

In the domestic regulatory area, the Administration believes that introducing more competition into previously regulated sectors will increase productivity and our international competitiveness. The Administration will also consider trade implications when reviewing proposed regulations and when developing further deregulation initiatives. The Administration will examine the use of the trade leverage created by its deregulatory process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.

The Administration will increase efforts to protect intellectual property rights domestically (patents, copyrights, trademarks); we will accelerate work in this area with a view toward possible Administration legislative and administrative initiatives.

The Administration is also reviewing, and will seek to amend, if warranted, anti-trust laws or regulations that impede our international competitiveness.

International Financial and Development Policies

The Administration is also actively supporting U.S. trade interests by pursuing initiatives in the international financial and development policy area. At recent economic summit and ministerial meetings, we have urged our foreign partners to pursue economic growth-oriented policies. This would reduce the U.S. trade deficit through increased demand for our exports, and would also provide additional export opportunities for debt-ridden LDCs.

The Administration actively supports the efforts being coordinated by the International Monetary Fund and World Bank to help strengthen the international financial system and promote economic development.

To this end, the United States is prepared to consider the possible value of hosting a high-level meeting of the major industrial countries, in order to review the various issues involved in transforming the findings of the Group of Ten into appropriate action. Such a special meeting could build on the G-10 studies by considering, in a cooperative fashion, the policies and performance in the major industrial countries, and how these can be improved to promote convergence toward non-inflationary growth.

U.S. exports have suffered in recent years as a result of the external debt crisis affecting a number of developing countries. For example, U.S. exports to Latin America have declined substantially in recent years in light of the serious debt-servicing problems of many countries in this region. Conditional IMF financing programs can assist debtor countries in making a transition to sustainable growth. To this end, it is important that the United States support IMF efforts to seek macro and micro-economic policy reform as part of financial assistance packages negotiated with debtor countries.

The Administration believes that reform of trade and investment policies should be part of the policy reforms being negotiated by the IMF as part of conditional financing programs. Reduced export subsidies and liberalized trade barriers will benefit many developing countries' efforts to improve economic efficiency and accelerate economic growth. The Adminstration continues to press for these reforms in its representation and voting in the IMF. Such efforts will contribute to a more open and healthy international environment for U.S. and developing country trade and growth.

In its relations with the World Bank, the Administration has been pressing for expanding the role of he private sector in promoting long-term economic growth in developing countries. The

Administration believes that less government intervention in the economies of developing countries and fewer restrictions on domestic and foreign investment will greatly assist rapid development and growth of world trade. A reduction of developing country restrictions on foreign investment can promote competition and reduce the inefficiency created buy protected domestic monopolies, at the same time providing funds and productive capabilities to meet these countries' debt service requirements. The Administration supports the implementation of the Multilateral Investment Guarantee Agency recently negotiated in World Bank meetings, in order to help promote the flow of international investment. The Administration also encourages developing countries to negotiate individual agreements to protect and give national treatment to foreign investment.

Price controls and subsidies normally distort both development and trade and lead to wasteful uses of World Bank funds and the development of industries whose survival in the international marketplace depends upon continuing government aids. Such policies can also inflict damage on U.S. industries which are in competition with government-assisted foreign companies. The Administration will continue to press the World Bank to assist in promoting market-oriented development policies.

Trade Policy: Ensuring Better Access and Fairer Trade

U.S. trade policy must be based on a realistic appraisal of the position of the United States in the world economy. Clearly our nation remains strong and vibrant, the economic leader of the free world with a political leadership role based on that strength. To carry out this role we must lead in creating conditions of open and expanding international trade that will contribute to global prosperity.

The Administration reaffirms its basic trade policy position as enunciated in its July 8, 1981 statement. In accordance with that position, the Administration will continue to pursue more open access to markets abroad for U.S. exports and fairer conditions of trade, while opposing policies at home and abroad that is protectionist. We seek substantial trade liberalization from our major developed and advanced-developing trade partners that will open their markets to U.S. products as much as our markets have been open to their goods and services. The United States is taking the initiatives that are necessary to achieve more equitable conditions of access in a number of foreign markets, particularly Japan and Europe.

Our trade policy must combine concerted efforts with our trading partners to attain fair competitive conditions in the world trading community over the long run with a willingness to take temporary steps, as necessary, to ensure fair competitive conditions for U.S. producers.

Other nations must understand that the political support in the United States for building a more open trading system will be impossible to maintain if progress in achieving more open and fairer trade is not made soon. The United States will, as Administrations have done in the past, initially approach international trade issues in a determined, but non-confrontational, way. But, if necessary, we will take action to achieve more open foreign markets and defend ourselves against unfair foreign trade practices.

The Administration will step up the use of the authority given to it by Congress to address foreign unfair trade practices which distort U.S. trade and investment and will vigorously pursue U.S. trade interests and rights under U.S. laws and the GATT, and will see that other countries live up to their trade agreement obligations with the United States.

The Administration will continue its vigorous enforcement of U.S. laws aimed at countering foreign dumping and subsidy practices. Competition in international trade should involve business firms, not government treasuries. This call for the diligent negotiation of international rules on export subsidies, a high-priority endeavor of this Administration. Where such rules are absent, inadequate, or unsatisfactory in their implementation, the U.S. will, vigorously protect its legitimate market share against the subsidy programs of other nations.

The Administration will also step up its efforts to address the problem of foreign governments' financial assistance to exports, particularly where mixed credits are involved, while pressing for international agreement eliminating subsidized export financing. So-called "mixed credits" arise when governments combine export credits with financial assistance grants of funds in order to lower the cost of credit on their export sales. Mixed credits are a significant and growing subsidies problem in the world trading system. The Administration is directing the Export-Import Bank to begin an aggressive targeted mixed credit lending policy. At the same time, the Administration will seek a $300 million appropriation for grants to support up to $1 billion in mixed credit loans.

The Administration will be receptive to petitions from U.S. firms and individuals that present valid complaints about foreign unfair trade practices. The President recently announced five cases of Administration-initiated cases under Section 301 of the Trade Act of 1974 to address unfair trade practices abroad. This is the first time that any President has taken this bold step. The Administration will take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts to resolve such issues through consultations fail. The denial or limitation of access to the U.S. market may be a necessary measure in this process.

The Administration supports the market-opening objectives of equitable access legislation but will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. The proper approach is to grant the Administration authority to negotiate foreign barrier reductions. The Administration will follow up on its report to the Congress on the subject of foreign industrial targeting, by continuing to examine the potential problems created by foreign targeting, and where appropriate, possible remedies.

We will seek the removal of foreign barriers and distortions to U.S. trade in services and high technology industries (areas in which we have a significant worldwide competitive advantage) and to U.S. direct investment abroad, which contributes positively to U.S. exports and other overseas earnings. An important new priority will be to reduce and eliminate barriers to and distortions in U.S. trade arising from inadequate foreign protection of U.S.-generated intellectual property - patents, copyrights and trademarks.

In the agricultural trade area, the Administration will continue to counter foreign export subsidies which endanger our traditional overseas markets. The Administration will continue to explore possible uses of its export Payments-In-Kind (PIK) program to encourage our trade partners, particularly in Europe, to commit themselves to the elimination of agricultural export subsidies.

<u>Minimizing Exceptions to Open Trade</u>

Free trade is in the best interest of the citizens of the United States. Free trade produces more jobs, a more productive use of our nation's resources, more rapid innovation, and a higher standard of living. Free trade also advances our national security interests by strengthening the economic and political systems of our allies. Protectionism, in the form of tariff surcharges or quotas, are costly and contrary to our national economic and security interests.

It is, nevertheless, recognized internationally that nations may occasionally find it necessary to take actions that do not always conform to free trade principles. The Administration will, in appropriate cases, temporarily safeguard U.S. industries from serious harm caused primarily by a surge in imports. Such action, taken under U.S. trade law, are consistent with our international obligations. They must, however, reflect the nation's overall economic or security interests. Relief will be temporary, decline over the period of relief, and have the prospect of adjustment on the part of the U.S. industry so that it will be competitive after the relief is terminated.

The President's recent decision of no import relief in the non-rubber footwear case is consistent with this policy. Import relief in the formk of tariffs or quotas would not have enhanced the long-term competitiveness of the segments of the U.S. industry under strong import pressure; the more competitive segments of the U.S. industry did not require import relief. In addition, the cost of import relief to U.S. consumers would have been many billions of dollars and U.S. export industries would have suffered from inevitable retaliation by our affected trade partners. The President therefore decided that import relief was not in the national interest.

Instead of protection, the Administration will examine ways to promote worker retraining. In the recent footwear case, for example, the President ordered the Secretary of Labor to devise a plan under the Job Training Partnership Act to retrain displaced workers. The Administration will also review existing worker assistance programs in order to assure that they promote an effective human adjustment policy which contributes to the maximum capacity for change, mobility, and increased productivity. This review will include an assessment of: (a) training and retraining programs - sponsored by government, labor and business - on a comprehensive and continuing basis; and (b) employment service, job bank, training, and relocation support for displaced workers in order to minimize human cost and the loss of valuable skills.

The Administration reserves the right to respond to economic conditions internationally and to levels of import penetration that threaten domestic industries essential to our long-term national security. Furthermore, the Administration will vigorously enforce our export control laws in the interest of our own national security. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier. We are also aware that future technical advances by U.S. industry depend on maintaining the widest possible access to foreign markets and on fostering the widest exchange of scientific information.

<u>International Negotiations to Improve Access and Achieve Fairer Trade</u>

There is a need to strengthen the international trading system through the cooperative efforts of the United States and its trade partners, in order to obtain better access and fairer conditions of international trade.

There is a compelling need for overhaul of the General Agreement on Tariffs and Trade (GATT), which has provided the international legal framework for international trade over the past 40 years. The GATT's effectiveness has waned in recent years, primarily because its machinery and rules have not been adapted to current needs of the international trading community.

The GATT must be strengthened in the following areas:

dispute settlement; discipline over import restraints (whether in the form of safeguards, infant industry or balance of payments restrictions) and rules on the use of export subsidies. GATT negotiations must also achieve a vastly improved environment for the conduct of trade in agricultural products. Negotiations are needed to more fully complete work on the non-tariff barrier codes which were initially developed in the Tokyo round. And the GATT must examine issues and extend its domain in areas which are increasingly important to international trade, including the protection of intellectual property, trade in services, and trade-distorting investment practices.

The United States has urged its trade partners to enter into a new round soon to deal with these issues in the GATT. Such a round would send a positive signal that GATT members reaffirm their belief in an open trading system and in the GATT as an institution capable of adapting itself to changing conditions. We would hope that negotiations in the GATT could begin in 1986.

While our highest priority remains the improvement of the world trading system through a new round of multilateral trade negotiations, the United States remains interested in the possibility of achieving further liberalization of trade and investment through the negotiation of bilateral free trade arrangements such as the one recently concluded with Israel. We believe that, under certain circumstances, such agreements could complement our multilateral efforts and facilitate a higher degree of liberalization, mutually beneficial to both parties, than would be possible within the multilateral context.

The United States will give careful consideration to any serious proposal to enter into the negotiation of such agreements. The paramount factor in evaluating such proposals will be their economic value to the United States; we will not pursue any agreement which is not clearly in our economic and commercial interest. Finally, the prospects for significant progress in a new round of multilateral trade negotiations will also influence our deliberations on such bilateral initiatives.

The Administration will consult closely with Congress and with representatives of the private sector before making any decision with respect to prospective bilateral free trade agreements and it will notify Congress of its intentions in accordance with existing U.S. law.

In addition to possible bilateral free trade agreements, the United States will undertake other bilateral efforts to improve access for U.S. trade and investment. These bilateral efforts will address specific issues. Recently, the United States entered into sector-specific discussions with the government of Japan to improve access for U.S. producers of telecommunications equipment, medical and pharmaceutical products, electronics goods and forestry products. New sectors will be added that offer the promise of expanded U.S. exports.

The Administration also entered into discussions with the Japanese government to seek more open financial markets in Japan and a role for the yen which more reflects Japan's increasing economic importance in the World economy. We will be following-up on commitments made by Japan in this area.

Other bilateral trade-related initiatives include efforts by the United States to negotiate bilateral investment treaties with less-developed and advanced developing countries. Such treaties provide nondiscriminatory treatment, protection against expropriation, the right of free transfer of funds, the arbitration of investment disputes and coverage of intellectual property for U.S. investors.

Summary of the Administration's Trade Policy

At this time of major challenge to the future of U.S. and world trade, the Administration will carry out an active program to address the two key elements of its trade strategy -- maintenance of a strong and growing economy and more open and fairer conditions for U.S. trade. In this connection, the Administration will do the following:

Domestic and International Economic Policies

1. The Administration will, for the benefit to our international trade as well as our overall domestic economy, vigorously seek to bring federal spending under control. The Congress and public must more clearly recognize the adverse impact of excessive government spending and budget deficits can have on the dollar's value and U.S. trade. The Congress also has a major responsibility to bear, in this respect, to help reduce our trade deficit.

2. The Administration will continue to urge that the Congress adopt the President's tax reform proposal, which is essential to strengthening the economy and making U.S. businesses more competitive in international markets.

3. The Administration will review, and will seek to amend, if warranted, our domestic anti-trust laws or regulations to the extent that they unnecessarily impede our international competitiveness.

4. The Administration will consider trade implications when reviewing proposed regulations and when developing

further deregulation initiatives. The Administration will examine the use of the trade leverage created by its deregulatory process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.

5. The Administration will increase efforts to protect intellectual property rights domestically (patents, copyrights, trademarks); we will accelerate work in this area with a view toward possible Administration legislative and administrative initiatives.

6. The U.S. will encourage our trading partners to adopt policies that will accelerate their economic growth thereby expanding our export opportunities. Specifically we will urge Bonn Summit participants to act on their commitments to remove rigidities and imbalances in their economies. The U.S. will also continue to use discussions in the IMF and OECD to pursue this strategy.

7. The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute equity capital for debt by encouraging both domestic and foreign investment.

8. The 1984 yen-dollar efforts toward liberalizing Japan's financial markets and internationalizing the yen will continue.

Free and Fair Trade Policies

9. Because the United States depends upon both exports and imports for its prosperity and because protectionism is too costly, the Administration's goal will be to preserve as free and fair trading system as possible.

10. The United States will vigorously pusue its rights and interests in international commerce under U.S. law and the GATT, and will see that other countries live up to their obligations and trade agreements with the United States.

11. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws.

12. In the past, the U.S. has initiated Section 301 unfair trade cases only in response to formal petitions for action from U.S. industries. The Administration will,

as appropriate, also self-initiate such cases to address foreign unfair trade practices.

13. Where export subsidy rules are absent, inadequate, or unsatisfactory in their implementation, the U.S. will vigorously protect its legitimate market share against the subsidy programs of other nations. Also, the Administration is directing the Export-Import Bank to begin an aggressive targeted mixed credit lending policy. At the same time, the Administration will seek a $300 million appropriation for grants to support up to $1 billion in mixed credit loans.

14. The Administration will take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts to resolve such issues through consultations fail. The denial or limitation of access to the U.S. market may be a necessary measure in this process.

15. The Administration will support the market-opening objectives of equitable access legislation; but it will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. The proper approach is to grant the Administration authority to negotiate foreign barrier reductions.

16. The United States will continue market-oriented sector selective (MOSS) discussions with Japan. However, time limits will be placed on existing sector discussions, at the end of which specific commitments will be evaluated and follow-up procedures begun. New sectors will be added that offer the promise of expanded U.S. exports.

17. The Administration will follow up on its reports to the Congress on the subject of foreign industrial targeting by continuing to examine the potential problems created by foreign targeting and, where appropriate, possible remedies.

<u>U.S. Export Promotion Policies</u>

18. The United States will seek to reduce our nation's trade deficit through increasing exports instead of restricting imports. An example is the $2 billion export enhancement program (BICEP).

19. The Administration will work with private sector advisory groups (e.g., the President's Export Council) to improve export promotion and to help U.S. companies look at global marketing efforts.

20. The Administration will evaluate Federal export promotion activities during the fall budget review, and alter these activities as necessary to improve their effectiveness.

21. The Administration will again seek legislation to remove the export disincentives in the Foreign Corrupt Practices Act.

Multilateral and Bilateral Trade Negotiations for U.S. Exports and Fair Trade

22. There is a great need for a more comprehensive disciplined and effective system of world trade rules. The system needs fixing! The Administration will maintain efforts to launch a new GATT trade round.

23. The Administration will examine possible bilateral and plurilateral negotiating opportunities, both to improve market access and enhance fairness and promote wider interest in the multilateral negotiating process.

24. If requested by the Government of Canada, we will be prepared to work with the Congress in exploring possibilities of a free trade arrangement with that country.

Minimum Exceptions to Free Trade

25. The Administration is committed to market-based solutions to trade problems, at home and abroad; but occasional exceptions, in the form of relief from import competition may be necessary.

26. Import relief, when undertaken, will be transparent, temporary, time-specific, decline over the period of relief, and lead to greater competitiveness.

27. The Administration will review existing worker assistance programs in order to assure that they promote an effective human adjustment policy which contributes to the maximum capacity for change, mobility, and increased productivity.

28. The Administration reserves the right to respond to economic conditions internationally and to levels of import penetrationi that threaten domestic industries essential to our long-term national security.

29. The Administration will vigorously enforce our export control laws in the interest of our own national security. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier.

SE 19 P 6: 07

WASHFAX RECEIPT

THE WHITE HOUSE

C

SEP 19 6 15 PM '85

A

MESSAGE NO. 695 CLASSIFICATION Unclas PAGES 18

FROM WILLIAM MARTIN /Alfred Kingon 456-2224
(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION TRADE Policy Statement

LOG #:

TO (AGENCY)	DELIVER TO:	DEPT/ROOM NO.	EXTENSION
STAT	Director Casey		
	ATTN: MARY	[redacted]	

REMARKS